

CDIAC

**CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION**

POLICY AND PRACTICE

INVESTOR'S PERSPECTIVE

**RUSSELL FEHR, TREASURER
CITY OF SACRAMENTO**

Public Funds Investing: Yesterday and Today

City Investment Fundamentals

- It is possible to
 - ▣ Stay out of trouble
 - ▣ Generate yield
- Focus on
 - ▣ Policy
 - Required by and compliant with law
 - ▣ Practice
 - Conforming to policy and best practices

Investment Framework

- Fundamental goals should mirror legal requirements
- GC 53601
 - Safety
 - Public funds
 - Liquidity
 - Common sense basic
 - Yield
 - Potential limited

What Others Did Wrong

- Inappropriate risk
- Inadequate provision for liquidity
- Inadequate controls
- Unethical actions
- Inappropriate relationships
- Overlapping, not mutually exclusive

Safety and Liquidity

- Basics of cash management
- All investment options must be viewed through a filter of safety, extraordinarily low risk tolerance
- Money must be in the bank when the bills are due
- Investments must have certain availability
 - Actually a key to generating yield if excess cash is available
 - Investing for liquidity, then yield

Yield

- An effort to generate higher yield is the root cause of what went wrong
- Realistic appraisal of potential
- Potential to generate yield largely governed by cash position
 - Need excess cash to invest to generate yield.
 - Many jurisdictions use LAIF, CALTrust or other pools for liquidity and some yield. No realistic other options

Investment Policy

- Investment policy required under 53601
 - ▣ Annual approval by City Council (governing body)
- Focus on what we do and how we do it
- Process of drafting an investment policy brings focus on key elements of investing
- Implementing an investment policy will largely result in avoiding the things that went wrong
- 53601 require annual approval by governing body. Annual examination of policy

Key Elements of Policy

- 53601 objectives
- Ethics and conflicts of interest
- Selection of authorized financial institutions and broker/dealers
- Investment types – asset allocation
- Reporting

Asset Allocation

- A range of investment types are allowed including
 - ▣ Corporate bonds
 - ▣ Muni bonds
- Most jurisdictions do not utilize full range on types
 - ▣ Perceived risk
 - ▣ Political considerations
 - ▣ Limiting range reduces potential for yield and increases risk through concentration